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Venture capital affiliation and characteristics of Japanese IPO firms / ベンチャーキャピタルの系列関係と日本のIPO企業の特性

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論 文 内 容 の 要 旨

It is widely documented that venture capitalists (VCs henceforth) are active investors who provide not only capital but also value-adding activities including monitoring and management support to their portfolio companies. However, recent studies have increasingly stressed that VCs differ considerably in their organizational structure (affiliation). The dominant structure in VC industry is independent limited partnership (IVCs henceforth). Meanwhile, there exist VCs who are affiliated with large corporations (CVCs) and financial institutions (FVCs). Given that the difference in VC affiliation should have a decisive impact on VCs' investment strategies which play an influential role on startup firms' growth, it is important to investigate how VCs' affiliations affect their investment objectives and characteristics of investee companies.

After reviewing literature of VCs in Chapter 1, I point out that there are only few studies to address the issue. This dissertation investigates the relation between Japanese VCs' affiliations, their investment objectives, and characteristics of IPO firms. Japanese data provide an appropriate material because in Japan, many VCs are subsidiaries of financial institutions while IVCs do still exist. In addition, banks' direct shareholdings data and firms' borrowing data from individual banks are available in Japan. These novel data allow us to examine strategic objectives of bank-affiliated VCs (BVCs) accurately. There are three stock exchanges for emerging companies, of which two exchanges (MOTHERS and HERCULES) have more lax listing requirements. The difference in listing requirements allows us to examine whether VCs' affiliations are associated with the characteristics of IPO firms by investigating the choice of listing exchange.

Chapter 2 investigates strategic objectives of bank-affiliated VCs (BVCs). Previous studies point out that unlike IVCs, BVCs are strategic investors who invest in start-ups for the purpose of increasing their parent banks' lending opportunities. However, it remains unknown whether and how BVCs' investments enable parent banks to achieve their goals with controlling for the effect of bank's direct investments. Chapter 2 addresses this issue by investigating the relationship between BVCs' shareholding, parent banks' lending, and the probability of parent banks representing on the board of IPO firms. Controlling for the effect of parent banks' direct shareholdings, results suggest that banks have more opportunities to lend to IPO firms that have received investments from their subsidiary BVCs. The likelihood that parent banks appoint personnel to the board of IPO firms also increases with their subsidiary BVCs' ownership. These results support the idea that BVCs are strategic investors that seek for parent banks' interests. On the other hand, we find an insignificant

level-to-level relation between BVC ownership and parent bank lending when we limit attention to firm-BVC pairs in which the BVC has invested. This result suggests that BVCs' investments do not provide parent banks with as much power as their direct investments do.

Chapter 3 investigates dark side of IVCs. Prior studies commonly show that IVCs provide more effective monitoring and certification roles to portfolio firms than FVCs do. In contrast, this chapter predicts that IVCs are more likely to make immature firms go public than FVCs do for several reasons (grandstanding, risk-tolerance, firms' financing opportunities, and competitive disadvantage). Empirical results show that IVCs make younger and smaller firms go public than FVCs do. Due to the immaturity, IVC-backed IPOs are more likely to choose less reputable underwriters and list on stock exchange with less strict listing requirements. Importantly, firm size and age are negatively related to underpricing and positively associated with long-term operating performance of IPO firms. These results uncover the dark side of independent venture capitalists.

Chapter 4 investigates the relation between VC affiliations and IPO firms' earnings management. Earlier studies argue that IPO firms manage their earnings upward in the IPO process to increase offering prices while recent researchers indicate that IPO firms adopt conservative earnings management at the time of IPO to prevent serious declines in post-IPO accounting performance. These conflicting results suggest that earnings management is highly affected by IPO firms' characteristics and firms' motives for going public. Given that considerable differences exist between characteristics of IVC- and FVC-backed IPO firms (Chapter 3), I predict that IVC- and FVC-backed IPOs differ in the choice of earnings management. Empirical results show that IVC-backed IPOs adopt conservative earnings management in the year prior to the IPO, whereas FVC-backed and non-VC-backed IPOs manipulate pre-IPO earnings upward. I also find the level of post-IPO earnings management is negatively related to the cash flow change from the pre-IPO year. Importantly, the negative relation becomes strong as the level of earnings management in the pre-IPO year becomes small. These results clearly suggest that two different incentives on earnings management coexist in the Japanese IPO market. IVC-backed IPOs have concerns on serious declines in the post-IPO accounting performance and thus adopt conservative earnings management in the IPO process. In contrast, FVC-backed and non-VC-backed IPOs are more interested in founder profits and therefore adopt income-increasing earnings management in the IPO.

Chapter 5 presents summary and conclusions of this dissertation. Results in this dissertation clearly suggest that VC affiliations affect their investment objectives and in turn characteristics of IPO firms. This dissertation contributes to the literature in several dimensions. Firstly, I investigate the relation between BVC's ownership and parent banks' lending to IPO firms with controlling for the effect of parent banks' direct shareholdings. Secondly, I show evidence that VC affiliation is associated with IPO firms' matureness and earnings management strategy.